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Central Intelligence Agency







Washington, D. C. 20505

### DIRECTORATE OF INTELLIGENCE

20 September 1984

ISRAEL: Alternative Economic Policies

### Summary

we ran two scenarios to measure the impact of various policies on Israel's economic performance. Sharply constraining domestic demand would dramatically improve the civilian goods and services deficit compared with current trends, but investment would suffer.

Scenario 6. In this scenario, we assumed real wages decline 5 percent annually in 1985-86 and 3 percent in 1987 and there is a one-time decrease of 7.5 percent in domestic military and nonmilitary spending in 1985 and no growth in 1986-87. Economic growth falls from an annual average of 3.1 percent in the baseline to 1.9 percent, and the unemployment rate increases to 9.6 percent in 1987. Private consumption declines 2 percentage points compared with the baseline, and investment declines at an average annual rate of 8.7 percent compared with a fall of 5.6 percent in the baseline. The civilian goods and services deficit in 1987 is \$4.9 billion compared with \$5.6 billion in the baseline.

This memorandum was prepared by the Israel/Palestinian Branch, Arab-Israeli Division, Office of Near Eastern and South Asian Analysis. It was requested by Russell Misheloff, Deputy Director, Office of Middle East and European Affairs, AID, Information as of 20 September 1984 was used in its preparation. Questions and comments should be directed to Chief, Arab-Israeli Division,

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Scenario 7. This scenario combines Scenario 6 with an increase in the value-added tax of 5 percentage points in 1985-87. Under this scenario, the economy slows down even more. GNP growth averages only 1.5 percent a year, and the average annual rate of consumption and investment is 1.8 and 3.1 percentage points, respectively, below the baseline. The civilian goods and services deficit in 1987 is \$4.7 billion, but unemployment reaches 9.9 percent in 1987.

SCENARIO 6: DELINE Sanitized Copy Approved for Release 2010/09/17: CIA-RDP85T00287R001302110001-5 NON-MILITARY SPENDING 9/19/ 84

# ISRAEL MAIN ECONOMIC INDICATORS, 1983-1987

- (	BILL	IONS	OF	1980	SHEKELS)	

	1983	1984	1985	1986	1987
	107.73	110.25	110.06	441. 45	446.60
GROSS NATIONAL PRODUCT	107.73	110.34	112.26	114.15	116.62
PERCENT CHANGE	1.34	2.42	1.74	1.69	2.16
GNP DEFLATOR	12.62	53.28	237.23	1209.01	7730.64
PERCENT CHANGE	150.09	322.14	345.27	409.64	539.42
CAPACITY UTILIZATION RATE	90.88	92.47	93.57	94.63	96.41
UNEMPLOYMENT RATE	4.49	5.96	7.16	8.40	9.62
COMPONENTS OF AGGREGATE DEMAND					
PRIVATE CONSUMPTION	80.35	83.80	87.13	90.88	96.72
PERCENT CHANGE	7.05	4.30	3.97	4.30	6.43
TOTAL INVESTMENT	27.36	26.60	26.41	24.12	21.05
PERCENT CHANGE	5.92	-2.79	-0.73	-8.66	-12.73
GOVERNMENT CONSUMPTION	35.38	39.77	37.48	40.30	41.12
PERCENT CHANGE	-4.24	12.39	-5.74	7.52	2.03
		54.12			
EXPORTS	51.38			58.52	61.26
PERCENT CHANGE	2.24	5.32	4.86	3.12	4.69
IMPORTS	80.98	88.51	90.01	93.91	97.75
PERCENT CHANGE	5.65	9.30	1.69	4.34	4.09
NET FACTOR IMPORTS	5.76	5.44	5.51	5.75	5.78

### BALANCE OF PAYMENTS

### (BILLIONS OF DOLLARS)

CIVILIAN GOODS AND SERVICES					
EXPORTS	9.95	10.68	11,91	12.88	14.42
OF WHICH: DIAMONDS	1,21	1.39	1.59	1.73	1.99
IMPORTS	13.96	15.22	16.30	17.39	19.32
OF WHICH: FUELS	1.61	1.63	1.65	1.67	1.78
DIAMONDS	0.85	0.98	1.13	1.23	1.42
INTEREST	2.16	2.22	2.42	2.63	2.89
CIVILIAN GOODS AND SERVICES					
DEFICIT	-4.01	-4.54	-4.39	-4.51	-4.89
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
US FINANCED PAYMENTS	1.00	1.63	1.40	1.40	1.40
NON-US FINANCED IMPORTS	0.27	0.63	0.78	0.68	0.74
DEBT REPAYMENT	0.97	1.25	1.45	1.70	1.82
TOTAL DEBT	23.12	25.99	28.35	31.02	34.12
FINANCIAL GAP	-5.26	-6.42	-6.61	-6.89	-7.46
EXTERNAL FUND	3.24	5.68	6.24	6.79	7.36
OF WHICH US SSA	1.50	1.10	1.10	1.10	1.10
BALANCE	-0.47	-0.74	-0.38	-0.09	-0.10

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ATTACHMENT

SCENARIO 6: DELINE IN REAL WAGES AND SHARP DECLINE IN DOMESTIC MILITARY AND NON-MILITARY SPENDI Sanitized Copy Approved for Release 2010/09/17: CIA-RDP85T00287R001302110001-5 | ISRAEL

# DETAILED COMPONENTS OF REAL GNP

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
PRIVATE CONSUMPTION	80.35	83.80	07.43		
PERCENT CHANGE	7.05	4.30	87.13 3.97	90.88	96.72
TOTAL INVESTMENT	27.36	26.60	26.41	4.30	6.43
PERCENT CHANGE	5.92	-2.79	-0.73	24.12 -8.66	21.05
COMPONENTS OF INVESTMENT	J. /L	-2.19	-0.73	-0.00	-12.73
PRIVATE NONRESIDINITAL	14.58	13.58	13.60	11.79	8.52
PERCENT CHANGE	21.78	-6.88	0.18	-13.34	-27.69
PRIVATE RESIDENTIAL	6.98	6.40	6.55	6.31	6.68
PERCENT CHANGE	-4.56	-8.30	2.35	-3.78	5.84
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10,00	-5.00
PRIVATE INVENIORY	-0.83	-0.02	0.05	0.03	0.03
PERCENT CHANGE	1791.33	-97.58	-350.00	-40.00	0.00
GOVERNMENT NONRESIDENTIAL	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
GOVERNMENT RESIDENTIAL	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	<del>-</del> 21.56	-2.00	-10.00	-5.00	-5.00
GOVERNMENT CONSUMPTION	35.38	39.77	37.48	40.30	41.12
PERCENT CHANGE	-4.24	12.39	-5.74	7.52	2.03
COMPONENTS OF GOVERNMENT CONSUM					2.00
DOMESTIC NONMILITARY	12.84	13.22	12.23	12.23	12.23
PERCENT CHANGE	0.78	3.00	-7.50	0.00	0.00
TOTAL MILITARY	22.56	26.54	25.25	28.07	28.89
PERCENT CHANGE	<b>-</b> 6.75	17.64	-4.87	11.16	2.92
FOREIGN MILITARY	5.73	9.19	9.23	12.05	12.87
PERCENT CHANGE DOMESTIC MILITARY	-33.54	60.44	0.52	30.53	6.80
PERCENT CHANGE	17.35	17.87	16.53	16.53	16.53
DEFENSE SALES	6.94	3.00	-7.50	0.00	0.00
PERCENT CHANGE	0.51	0.51	0.51	0.51	0.51
TENDENT CHANGE	-20.31	0.00	0.00	0.00	0.00
COMPONE	NTS OF FORE	IGN TRADE	SECTOR		
EXPORTS	51.38	54.12	56.75	58.52	61.26
PERCENT CHANGE	2.24	5.32	4.86	3.12	4.69
IMPORTS	80.98	88.51	90.01	93.91	97.75
PERCENT CHANGE	5.65	9.30	1.69	4.34	4.09
COMPONENTS OF IMPORTS CIVILIAN IMPORTS	40.00				
PERCENT CHANGE	62.02	65.79	67.04	68.37	70.98
SHIPS AND PLANES	8.62	6.07	1.90	1.98	3.82
PERCENT CHANGE	0.46	0.51	0.46	0.41	0.39
DIRECT DEFENSE IMPORTS	57.92 4.76	10.00	-10.00	-10.00	-5.00
PERCENT CHANGE	-35.66	7.63	7.67	10.02	10.70
IMPORIS TAXES	13.74	60.44	0.52	30.53	6.80
PERCENT CHANGE	15.80	14.58 6.11	14.84	15.12	15.69
NET FACTOR IMPORTS	5.76	5.44	1.79	1.89	3.76
PERCENT CHANGE	12.23	-5.59	5.51	5.75	5.78
	16.63	-5.59	1.21	4,41	0.49

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## ISRAEL ASSUMED VALUES FOR EXOGENOUS VARIABLES

	1983	1984	1985	1986	1987	
			(811)	LIONS OF 1980	CHEREIGI	
*** GOVERNMENT VARIABLES DOMESTIC NONMILITARY EXPEND.			(1)	1000	JILKELS	
DOMESTIC NONMILITARY EXPEND.	12.84	13.22	12.23	12.23	12.23	
PENCENT CHANGE	0.78	3.00	-7.50	12.23 0.00 16.53 0.00 1.41 -5.00 4.17	0.00	
DOMESTIC MILITARY EXPEND. PERCENT CHANGE	17.35	17.87	16.53	16.53	16.53	
GOVI RESIDENTIAL INVEST.	6.94 1.68	3.00	-7.50	0.00	0.00	
PERCENT CHANGE	-21.56	-2.00	-10.00	1.41	1.34 -5.00	
GOVT NONRESIDENTIAL INVEST.	4.48	4.48	4 26	-5.00 h 17	4.09	
PERCENT CHANGE	8.01	3.00 1.65 -2.00 4.48 0.00	-5.00	-2.00	-2.00	
				IONS OF 1980	SHEKELS)	
NET TRANSFERS TO PRIVATE SECT.	20.44	20.44	20.44	20.44	20.44	
PERCENT CHANGE NET CREDIT ABSORP. BY GOVT PERCENT CHANGE PUBLIC SECTOR WAGES PERCENT CHANGE		0.00	0.00	0.00	0.00	
NET CREDIT ABSORP. BY GOVT	<del>-</del> 25.60	-20.00	-10.00	-5.00	5.00	
PERCENT CHANGE		-21.89	-50.00	-50.00	-200.00	
PUBLIC SECTOR WAGES PERCENT CHANGE	22.24	23.13	21.98	20.88	20.25	
BOI CREDIT TO PRIVATE SECTOR		4.00	-5.00	-5.00	-3.00	
PERCENT CHANGE	6.54	2.42	-5.00 6.82 1.74	6.93	7.08 2.16	
*** TAX RATES					(PERCENT)	
DEFENSE IMPORT TAXES	0.20	0.20	0.20	0.20	0.20	
INVENTORY SURTAX	-0.01	-0.29	0.12	0.20 0.19	0.19	
BUSINESS INCOME TAX	0.06	0.06	0.06 0.19	0.06	0.06	
DOMESTIC FROD. TAX (TRUE, VAI)	0.19	0.19	0.19	0.19	0.19	
IMPORT TAX NATIONAL INSURANCE TAX	0.20	0.20	0.20		0.20	
WAGE TAX	0.13 0.14	0.13 0.14	0.13		0.13	
TAXES ON OTHER INCOME	0.14	0.14	0.14 0.13	0.14 0.13	0.14 0.13	
					T CHANGE)	
*** BALANCE OF PAYMENTS REAL GROWTH IN US AND EC DOLLAR PRICE OF IMPORTS DOLLAR PRICE OF OIL				•	•	
REAL GROWTH IN US AND EC		3.90	3.00	2.00	3.50	
DOLLAR PRICE OF IMPORTS	-2.18	3.87	4.85	4.28	7.17	
WORLD INTEREST RATE	9.30	0.00	0.00	0.00	5.20	
DOLIAR PRICE OF OIL WORLD INTEREST RATE EXCHANGE RATE (LEVEL)	56.21	228.46	970.20	4741.58	28290.07	
			3.00 2.00 3.50 4.85 4.28 7.17 0.00 0.00 5.20 9.10 8.60 8.60 970.20 47/41.58 28290.07			
FOREIGN DEDT DEDAYMENTS	0.07				•	
FOREIGN DEBT REPAYMENTS DIRECT DEFENSE IMPORT PAYMENTS	0.97		1.45	1.70 2.07 2.52 2.72	1.82	
DIRECT DEFENSE IMPORTS	1.27	2.26	2.18	2.07	2.14	
	2.23	1.76 2.17	2.05	2.52	2.89 3.03	
TOTAL GROSS CAP FLOW (NOT FMS)	2.23 3.24	5.68	6.24	6.79	7.36	
US FCONOMIC ASSISTANCE	1.50	1,10	1, 10	1,10	1.10	
US FMS	1.00	1.63	1.40	1.40	1.40	

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(BILLIONS OF 1980 SHEKELS)

ISRAEL
MAIN ECONOMIC INDICATORS, 1983-1987

	1983	1984	1985	1986	1987
GROSS NATIONAL PRODUCT	107.73	110.34	111,79	113.05	115.37
PERCENT CHANGE	1.34	2.42	1.32	1,13	2.05
GNP DEFLATOR PERCENT CHANGE	12.62	53.28	237.43	1227.75	8041.45
CAPACITY UTILIZATION RATE	150.09 90.88	322.14 92.47	345.65	417.10	554.97
UNEMPLOYMENT RATE	4.49	5.96	93.18 7.21	93.74 8.58	95.47 9.94
COMPONENTS OF ADDRESS OF THE		,,,,		0.70	9.94
COMPONENTS OF AGGREGATE DEMAND PRIVATE CONSUMPTION	00. 35	03.00			
PERCENT CHANGE	80.35 7.05	83.80 4.30	86.21 2.87	89.16	95.23
TOTAL INVESTMENT	27.36	26.60	26.17	3.42 23.43	6.81
PERCENT CHANGE	5.92	-2.79	-1.62	-10.47	20.24 -13.61
GOVERNMENT CONSUMPTION	35.38	39.77	37.48	40.30	41.12
PERCENT CHANGE	-4.24	12.39	-5.74	7.52	2.03
EXPORTS	51.38	54.12	56.73	58.44	61.13
PERCENT CHANGE	2.24	5.32	4.83	3.02	4.61
PERCENT CHANGE	80.98	88.51	89.29	92.52	96.55
NET FACTOR IMPORTS	5.65 5.76	9.30 5.44	0.89	3.61	4.36
HET PROTON THI ONTO	5.76	2.44	5.51	5.76	5.81
	BALANCE OF	PAYMENTS			
			(BI	LLIONS OF	DOLLARS)
CIVILIAN GOODS AND SERVICES					
EXPORTS	9.95	10.68	11,91	12.86	14.37
OF WHICH: DIAMONDS	1.21	1.39	1.59	1.73	1.99
IMPORTS	13.96	15.22	16.18	17.15	19.09
OF WHICH: FUELS	1.61	1.63	1.65	1.66	1.77
DIAMONDS INTEREST	0.85	0.98	1.13	1.23	1.42
CIVILIAN GOODS AND SERVICES	2.16	2.22	2.42	2.63	2.89
DEFICIT	-4.01	-4.54	-4.27	-4.29	-4.72
	4.0.	4.54	-4,61	-4.29	-4.12
DIRECT DEFENSE IMPORTS	1.03	1.76	1,85	2.52	2.89
DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
US FINANCED PAYMENTS	1.00	1.63	1.40	1.40	1.40
NON-US FINANCED IMPORTS	0.27	0.63	0.78	0.68	0.74
DEBT REPAYMENT	0.97	1,25	1.45	1 241	1 00
TOTAL DEBT	23.12	25.99	28.35	1.70 31.02	1.82 34.12
FINANCIAL GAP	-5.26	-6.42	-6.49	-6.67	-7.28
EXTERNAL FUND	3.24	5.68	6.24	6.79	7.36
OF WHICH US SSA	1.50	1.10	1.10	1.10	1.10
BALANCE	-0.47	-0.74	-0.26	0.13	0.08
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(BILLIONS OF 1980 SHEKELS)

### ISRAEL DETAILED COMPONENTS OF REAL GNP

			( D . C	10 01 1700	SHE KELS
	1983	1984	1985	1986	1987
PRIVATE CONSUMPTION	80.35	83.80	86.21	89.16	95.23
PERCENT CHANGE	7.05	h 30	2 87	3 42	6.81
TOTAL INVESTMENT	27.36	26.60	26.17 -1.62	23.43	20.24
PERCENT CHANGE	5.92	-2.79	-1.62	23.43 -10.47	-13.61
COMPONENTS OF INVESTMENT					
PRIVATE NONRESIDENTIAL	14.58	13.58	13.44	11.33	7.96
PERCENT CHANGE	21.78	-6.88	-1.00	-15.75	-29.69
PRIVATE RESIDENTIAL	6.98	6.40	6.48	6.08	6.43
PERCENT CHANGE	-4.56	-8.30	1.14	-6.14	5.74
SHIPS AND PLANES	0.46			0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	
PRIVATE INVENIORY	-0.83	-0.02	0.05	0.03	0.03
PERCENT CHANGE GOVERNMENT NONRESIDENTIAL	1791.33	-97.58	-350.00	-40.00	0.00
GOVERNMENT NONRESIDENTIAL	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00		4.17	-2.00
GOVERNMENT RESIDENTIAL	1.68	1.65	1,49	1.41	1.34
PERCENT CHANGE	1.68 -21.56	-2.00	-10.00	-5.00	-5.00
GOVERNMENT CONSUMPTION	35.38 -4.24	39.77 12.39	37.48	40.30	41.12
PERCENT CHANGE	-4.24	12.39	-5.74	7.52	2.03
COMPONENTS OF GOVERNMENT CONSUM	IPTION			,,,,	2.05
DOMESTIC NONMILITARY	12.84	13.22	12.23	12.23	12.23
PERCENT CHANGE	0.78	3.00	-7.50	0.00	0.00
TOTAL MILITARY	22.56	26.54	25.25	28.07	28.89
PERCENT CHANGE	-6.75	17.64	-4.87	11.16	2.92
FOREIGN MILITARY	5.73	9.19	9.23	12.05	12.87
PERCENT CHANGE	-33.54	60.44	0.52	30.53	6.80
DOMESTIC MILITARY	17.35	17.87	16.53	16.53	16.53
PERCENT CHANGE	6.94	3.00	-7.50	0.00	0.00
DEFENSE SALES	0.51	0.51	0.51	0.51	0.51
PERCENT CHANGE	-20.31	0.00	0.00	0.00	0.00
COMPONE	NTS OF FORE	IGN TRADE	SECTOR		
EXPORTS	51.38	54.12	56.73	58.44	61.13
PERCENT CHANGE	2.24	5.32	4.83	3.02	4.61
IMPORTS	80.98	88.51	89.29	92.52	96.55
PERCENT CHANGE	5.65	9.30	0.89	3.61	4.36
COMPONENTS OF IMPORTS					
CIVILIAN IMPORTS	62.02	65.79	66.45	67.22	69.99
PERCENT CHANGE	8.62	6.07	1.01	1.16	4.12
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	0.41	-5.00
DIRECT DEFENSE IMPORTS	4.76	7.63	7.67	10.02	10.70
PERCENT CHANGE	-35.66	60.44	0.52	30.53	6.80
IMPORTS TAXES	13.74	14.58	14.71	14.87	15.47
PERCENT CHANGE	15.80	6.11	0.91	1.07	4.05
NET FACTOR IMPORTS	5.76	5.44	5.51	5.76	5.81
PERCENT CHANGE	12.23	-5.59	1.22	4.65	0.71

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#### ISRAEL ASSUMED VALUES FOR EXOGENOUS VARIABLES

	1983	1984	1985	1986	1987
			(8111	IONS OF 1980	SHEKELSI
*** GOVERNMENT VARIABLES					
DOMESTIC NORMILITARY EXPEND. PERCENT CHANGE	12.84 0.78	13.22 3.00	12.23	12.23	12.23
DOMESTIC MILITARY EXPEND.	17.35	17.87	-7.50 16.53	0.00 16.5 <b>3</b>	0.00
PERCENT CHANGE	6.94	3.00	-7.50	0.00	16.53
GOVI RESIDENTIAL INVIST.	1.68	1.65	1,49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVI NONRESIDENTIAL INVEST.	4.48	4.48	4.26	4, 17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
			(BILL	IONS OF 1980	SHEKELS)
NET TRANSFERS TO PRIVATE SECT.	20.44	20,44	20.44	20.44	20.44
PERCENT CHANGE	20,44	0.00	0.00	0.00	0.00
NET CREDIT ABSORP. BY GOVT	-25.60	-20.00	-10.00	-5.00	5.00
PERCENT CHANGE		-21.89	-50.00	-50.00	-200.00
PUBLIC SECTOR WAGES	22.24	23.13	21.98	20.88	20.25
PERCENT CHANGE		4.00	-5.00	-5.00	-3.00
BOI CREDIT TO PRIVATE SECTOR PERCENT CHANGE	6.54	6.70	6.79		7.01
PERCENT CHANGE		2.42	1.32	1.13	2.05
*** TAX RATES				(	PERCENT)
DEFENSE IMPORT TAXES	0.20	0.20	0.20	0.20	0.20
INVENTORY SURTAX	-0.01	-0.29	0.12	0.19	0.19
BUSINESS INCOME TAX	0.06	0.06	0.06	0.06	0.06
DOMESTIC PROD. TAX (INCL. VAT)	0.19	0.19	0.24	0.24	0.24
IMPORT TAX	0.20	0.20	0.20	0.20	0.20
NATIONAL INSURANCE TAX WAGE TAX	0.13	0.13	0.13	0.13	0.13
TAXES ON OTHER INCOME	0.14 0.13	0.14	0.14	0.14	0.14
TAKES ON OTHER THOOPIE	0.13	0.13	0.13	0.13	0.13
*** BALANCE OF PAYMENTS				( PERCENT	CHANGE)
REAL GROWTH IN US AND EC		3.90	3.00	2.00	3.50
DOLLAR PRICE OF IMPORTS	-2.18	3.87	4.85	4.28	7.17
DOLLAR PRICE OF OIL	-13.77	0.00	0.00	0.00	5.20
WORLD INTEREST RATE	9.20	8.80	9.10	8.60	8.60
EXCHANGE RATE (LEVEL)	56.21	228.46	971.02	4815.08	29427.51
			(BIL	LIONS OF US	DOLLARS)
FOREIGN DEBT REPAYMENTS	0.97	1.25	1.45	1.70	1.82
DIRECT DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
NET FOREIGN BORROWING BY GOVT.	2.23	2,17	2.05	2.72	3.03
TOTAL GROSS CAP FLOW (NOT FMS)	3.24	5.68	6.24	6.79	7.36
US ECONOMIC ASSISTANCE	1.50	1.10	1.10	1.10	1.10
US FMS	1.00	1.63	1.40	1.40	1.40

DSET: SCEN7 MODEL ISSEP84F

25X1

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NESA M#84-10270

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1 - PDB Staff w/att

4 - CPAS/IMD/CB w/att

1 - CPAS/ILS w/att

1 - D/NESA w/attt

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(17Sep84)

DDI/NESA/AI/I/

25X1

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